PUBLIC VERSION

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of	)	
Conoco Inc.,	)	
a corporation,	)	
	)	Docket No. C-4058
and	)	File No. 021-0040
	)	
Phillips Petroleum Company,	)	
a corporation.	)	
	)	

PETITION OF CONOCOPHILLIPS FOR APPROVAL OF THE PROPOSED DIVESTITURE OF THE PHILLIPS SPOKANE TERMINAL TO HOLLY CORPORATION

Pursuant to Section 2.41(f) of the Federal Trade Commission ("Commission") Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2002), and Paragraphs V.A. and V.B. of the Decision and Order contained in the Agreement Containing Consent Orders approved by the Commission in this matter ("Decision and Order"), ConocoPhillips hereby petitions the Commission to approve the divestiture of the Phillips Spokane Terminal[1] to Holly Corporation or a wholly-owned subsidiary of Holly Corporation ("Holly").

Background

On August 2, 2002, Conoco Inc. ("Conoco"), Phillips Petroleum Company ("Phillips") (individually and collectively, "ConocoPhillips"), and the Commission executed an Agreement Containing Consent Orders that included the Decision and Order and an Order to Hold Separate and Maintain Assets (collectively, the "Consent

[1] For capitalized terms not defined herein, please see the definitions in the Decision and Order.

Agreement") to settle the Commission's charges related to the proposed merger of Conoco and Phillips. On August 30, 2002, the Commission accepted the Consent Agreement for public comment, and Conoco and Phillips thereafter consummated their merger, thereby forming a new entity, ConocoPhillips.[2] The proposed Consent Agreement received final approval from the Commission on February 7, 2003.

ConocoPhillips desires to complete the proposed divestiture of the Phillips Spokane Terminal to Holly as soon as possible, following Commission approval. Prompt consummation will further the purposes of the Decision and Order and is in the interests of the Commission, the public, Holly, and ConocoPhillips, because it will allow Holly to move forward with its business plans for the competitive operation of the Phillips Spokane Terminal. It will also allow ConocoPhillips to fulfill its obligations under the Consent Agreement. ConocoPhillips accordingly requests that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2) (2002), limit the public comment period to the customary 30-day period, and grant this petition by approving the divestiture of the Phillips Spokane Terminal to Holly pursuant to the proposed agreements as soon as practicable after the close of the public comment period.

<u>Request for Confidential Treatment</u>

Because this petition and its attachments contain confidential and competitively sensitive business information relating to the divestiture of the Phillips Spokane Terminal, ConocoPhillips has redacted such confidential information from the

---

[2] After the merger, Conoco and Phillips remained as separate corporate entities, but as wholly-owned subsidiaries of and included within ConocoPhillips. On December 31, 2002, Phillips was renamed ConocoPhillips Company, and, on January 1, 2003, Conoco was merged into ConocoPhillips Company. ConocoPhillips Company is a wholly-owned subsidiary of ConocoPhillips.

public version of this petition and its attachments. The disclosure of this information would prejudice ConocoPhillips and Holly, cause harm to the ongoing competitiveness of the Phillips Spokane Terminal, and impair ConocoPhillips' ability to comply with its obligations under the Consent Agreement. Pursuant to Sections 2.41(f)(4) and 4.9(c) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(4) & 4.9(c) (2002), ConocoPhillips requests that the confidential version of this petition and its attachments and the information contained herein be accorded confidential treatment. The confidential version of this petition should be accorded such confidential treatment under 5 U.S.C. § 552 and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2002). The confidential version of this petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), 552(b)(7)(A), 552(b)(7)(B), & 552(b)(7)(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h).

I. Holly Will Be a Strong and Effective Competitor

The Bureau of Competition's 1999 "Study of the Commission's Divestiture Process" (the "Divestiture Study") discussed a number of factors that help to identify a promising divestiture buyer. All of these and other factors demonstrate that Holly will be an excellent buyer.

A. Holly is an established, experienced competitor in the terminaling, refining, transportation, and sale of motor fuels and other petroleum products.

The Divestiture Study cited the buyer's experience in the relevant industry and knowledge of the assets to be purchased as key to a successful divestiture. "The most successful buyers appear to be the ones that know the most about what they are buying."[3]

[3] Divestiture Study, p. 34.

Incorporated in 1947, Holly has been active in the petroleum products industry, including the ownership and operation of petroleum products terminals for over 33 years.[4] Holly currently operates petroleum product storage terminals (which include "racks" for the delivery of petroleum to local delivery trucks) in El Paso, Texas; Artesia, Roswell, Moriarty, and Bloomfield, New Mexico; and Mountain Home, Idaho. In addition, Holly has a 50% interest in two terminals in Tucson, Arizona, and Albuquerque, New Mexico. Holly also operates refinery truck racks with associated refined product storage (*i.e.*, the functional equivalent of stand-alone terminals) at its refineries in Lovington and Artesia, New Mexico and Great Falls, Montana. Assuming FTC approval of the sale of the Phillips Woods Cross Assets to Holly,[5] Holly will own the truck rack at the Woods Cross refinery and have a 50% interest in two additional petroleum product terminals in Boise and Burley, Idaho.

Holly owns and operates two refineries. A Holly affiliate, Navajo Refining Company, L.P. ("Navajo"), owns a refinery in Artesia, New Mexico. Navajo operates this refinery in conjunction with crude processing, vacuum distillation, and other facilities situated 65 miles away in Lovington, New Mexico (together, the "Navajo Refinery"). Navajo has operated the Artesia facility since 1969 and began operating the Lovington facility in 1992 after making the appropriate upgrades. Holly has successfully integrated its refining operations in Artesia and Lovington, New Mexico to create a single refinery with 60,000 barrels per day ("bpd") of crude refining capacity.

Another Holly affiliate, Montana Refining Company ("MRC"), owns a 7,000 bpd refinery in Great Falls, Montana. MRC has operated the Montana refinery since 1984. The

---

[4] Holly's principal corporate offices are at 100 Crescent Court, Suite 1600, Dallas, Texas 75201.

[5] *See* Petition of ConocoPhillips for Approval of the Proposed Divestiture of the Phillips Woods Cross Assets to Holly Corp., filed with the Commission on January 16, 2003.

Montana refinery's principal marketing areas include

Holly distributes refined products from the Navajo Refinery to its principal markets primarily through two company-owned pipelines that extend from Artesia to El Paso. From El Paso, products reach Tucson and Phoenix on the third-party controlled SFPP pipeline and reach Albuquerque through a Chevron controlled pipeline. In addition, Holly uses a combination of an owned pipeline and a leased pipeline to transport petroleum products to markets in Northwest New Mexico and to Moriarty, New Mexico, near Albuquerque.

In recent years, Holly has made an effort to develop and expand a pipeline transportation business. These pipeline operations include approximately 1,000 miles of pipelines, of which approximately 400 miles are also used as part of the supply and distribution network of the Navajo Refinery.

Holly also has a interest in a joint venture conducting a retail gasoline station and convenience store business in Montana.

Further, through the divestiture due diligence and negotiations, Holly has become very familiar with the Phillips Spokane Terminal and has carefully considered the acquisition of the Phillips Spokane Terminal. ConocoPhillips has endeavored to provide Holly with access to all of the necessary information about the Phillips Spokane Terminal that Holly requested.

B. Holly has invested significant amounts in capital expenditures in recent years to enhance its supply and distribution network and to expand its refineries.

The Divestiture Study goes on to emphasize the importance of the buyer's commitment (*i.e.*, substantial investment in continuing in the relevant business), citing favorably examples of buyers that invested substantially in the construction of new facilities.[6] Holly recently completed a large pipeline and terminal expansion project that involved a significant capital investment. Holly leases from Mid America Pipeline Company more than 300 miles of 8" pipeline running from Chaves County to San Juan County, New Mexico (the "Leased Pipeline"). Holly owns and operates a 12" pipeline from the Navajo Refinery to the Leased Pipeline and also owns terminaling facilities in Bloomfield, New Mexico (northwest corner of New Mexico) and in Moriarty (40 miles east of Albuquerque). Transportation of petroleum products to Moriarty and Bloomfield began at the end of calendar 1999. In December 2001, Holly completed an expansion of the Moriarty terminal and the pumping capacity on the Leased Pipeline.[7] The terminal expansion included the addition of gasoline and jet fuel to the existing diesel fuel delivery capabilities, thus permitting Holly to provide a full slate of light products to the growing Albuquerque and Santa Fe, New Mexico areas.

Moreover, Phillips, prior to the merger, approved an AFE in the amount of $495,000 to upgrade the Phillips Spokane Terminal. Since the merger, ConocoPhillips has signed two purchase orders for work under the AFE, the first on October 10, 2002 and the second on February 18, 2003. One is in the amount of $307,428 for an upgrade to the loading rack, and the other is in the amount of $152,875 for a tank upgrade. ConocoPhillips and Holly

[6] Divestiture Study, p. 34-35.

[7] Holly Corporation Press Release attached as Exhibit A.

have agreed that ConocoPhillips will continue the AFE work, in the normal course of business to the Closing Date, and will pay for the work done up to the Closing Date. After the Closing Date, Holly must pay for any further work performed under the AFE.[8]

Such substantial capital expenditures going forward are consistent with Holly's history. Holly has shown a commitment to its other existing assets by investing in their future through significant capital spending.

In December 2001, Holly received the necessary permitting for the construction of a new gas oil hydrotreater unit at the Artesia facility and for the expansion of the crude refining capacity of the Navajo Refinery from 60,000 bpd to an estimated 70,000 bpd.[9] Holly expects that the hydrotreater and the related expansion will be completed by December 2003.

Navajo will also modify several of the Artesia processing units during the first phase of the Navajo Refinery's expansion. Additional permits will also be required to undertake modifications at Navajo's Lovington, New Mexico refining facility. The modifications to the Lovington facility should also be completed by December 2003.

The permits received by Navajo to date for the Artesia facility should also permit a second phase expansion of the Navajo refinery's crude oil capacity from 70,000 bpd to an estimated 80,000 bpd, but a schedule for such additional expansion has not been determined.

Further, in fiscal 2001, Holly completed the construction of a new additional sulfur recovery unit at the Artesia facility, which is currently utilized to enhance sour crude processing capabilities and will provide sufficient capacity to recover the additional extracted sulfur that will result from operations of the hydrotreater.

---

8 Spokane Sale Agreement ¶ 5.

9 Holly Corporation Press Release attached as Exhibit B.

Holly's capital budget adopted for 2003 totals $14.8 million. Of that, $6.5 million is slated for the hydrotreater project and refinery expansion, $3.2 million for other refinery improvements, $3 million for pipeline transportation projects, $0.6 million for oil and gas exploration and production, and $1.5 million for information technology and other projects. For the 2003 fiscal year, MRC's capital budget is $800,000, most of which is for various improvements at the Montana refinery. Including money budgeted in previous years, Holly plans to spend approximately $40 million in fiscal 2003 for capital improvements.

C. Holly currently has no operations or assets in the immediate vicinity of the Phillips Spokane Terminal.

The Divestiture Study emphasized that the most successful buyers often were fringe competitors or entrants expanding geographically. "Frequently, the most knowledgeable and best buyer was the fringe competitor or an entrant expanding geographically."[10]

Although it operates in nearby states, Holly does not own any LPP terminals in the Spokane, Washington Metropolitan Statistical Area ("Spokane MSA") and has no other presence in the Spokane MSA market identified in the Commission's complaint.

As an entrant already engaged in the relevant business and expanding to a nearby geographic area, Holly is an ideal divestiture buyer. As mentioned above, Holly operates terminals, pipelines, and a refinery in New Mexico, Arizona, Idaho, and Montana.

D. The purchase of the Phillips Woods Cross Refinery further positions Holly as an excellent purchaser of the Phillips Spokane Terminal.

Subject to FTC approval, Holly will soon be the owner of the Phillips Woods Cross Assets. Like other Salt Lake City refineries, the Phillips Woods Cross refinery has historically produced product that is shipped on the Chevron pipeline, which runs from Salt Lake

[10] Divestiture Study, p. 34.

City through Idaho to Spokane, Washington. Thus, the Phillips Spokane Terminal provides for a natural geographic extension of the Phillips Woods Cross Assets being purchased by Holly.

II. The Spokane Sale Agreement Satisfies the Requirements of the Decision and Order To Divest The Phillips Spokane Terminal

Paragraph V of the Decision and Order requires ConocoPhillips to divest the Phillips Spokane Terminal by May 2, 2003 (nine months from the date ConocoPhillips executed the Consent Agreement). Pursuant to this requirement, ConocoPhillips has diligently sought a buyer that would be acceptable to the Commission and has entered into all appropriate agreements.

On , ConocoPhillips entered into an Agreement for the Purchase and Sale of the Spokane Terminal and Second Amendment to Asset Purchase and Sale Agreement (the "Spokane Sale Agreement").[11]

On

ConocoPhillips and Holly also entered into an Amended and Restated Environmental Agreement (the "Woods Cross Environmental Agreement Amendment").[13]

---

[11] The Spokane Sale Agreement is attached at Exhibit C, tab 2.

[12] The Woods Cross Sale Agreement is attached at Exhibit D.

[13] The Woods Cross Environmental Agreement Amendment is attached at Exhibit C, tab 37.

1. <u>Divestiture of Phillips Spokane Terminal</u>. Paragraph V.A. of the Decision and Order requires that ConocoPhillips divest the Phillips Spokane Terminal absolutely and in good faith to an acquirer within nine months from the date ConocoPhillips executed the Consent Agreement. Pursuant to the Spokane Sale Agreement and the Woods Cross Sale Agreement, Holly will acquire all of the Phillips Spokane Terminal. Spokane Sale Agreement and Woods Cross Sale Agreement

2. <u>Environmental Indemnity</u>. Paragraph V.D. of the Decision and Order requires that ConocoPhillips offer the acquirer an indemnity allocating among ConocoPhillips and the acquirer responsibility with respect to potential claims and liabilities arising out of failure to comply with local, state, and federal environmental obligations in connection with the Phillips Spokane Terminal. ConocoPhillips has satisfied the terms of this provision by executing with Holly the Woods Cross Environmental Agreement Amendment. Spokane Sale Agreement Woods Cross Environmental Agreement Amendment ; and Woods Cross Sale Agreement .

3. <u>Inability to Divest Intangible Asset Involving Rights Granted by Government Authorities</u>. Paragraph V.E. of the Decision and Order requires that ConocoPhillips, if it is unable to satisfy all conditions necessary to divest any intangible asset, with respect to permits, licenses or other rights granted by governmental authorities (other than patents), provide such assistance as the acquirer may reasonably request. On ConocoPhillips and Holly executed the First Amendment to Asset Purchase and Sale Agreement ("Woods Cross Sale Agreement Amendment")[14]

---

[14] The Woods Cross Sale Agreement Amendment is attached at Exhibit C, tab 1.

(As previously discussed with the Commission compliance staff, this applies not only to the Phillips Spokane Terminal, but also to the Phillips Woods Cross Assets.) Spokane Sale Agreement Woods Cross Sale Agreement Amendment ; and Woods Cross Sale Agreement

4. Inability to Divest Other Intangible Asset Not Involving Rights Granted by a Government Authority. Paragraph V.E. of the Decision and Order requires that ConocoPhillips, if it is unable to satisfy all conditions necessary to divest any intangible asset, with respect to other intangible assets not included in Paragraph 3 above, including patents and contractual rights, substitute equivalent assets or arrangements. In case ConocoPhillips is unable to divest any such asset, the Woods Cross Sale Agreement Amendment

(As previously discussed with the Commission compliance staff, this applies not only to the Phillips Spokane Terminal, but also to the Phillips Woods Cross Assets.) Spokane Sale Agreement Woods Cross Sale Agreement Amendment and Woods Cross Sale Agreement

5. Purpose of the Decision and Order. Paragraph V.F. of the Decision and Order provides that the purpose of the Decision and Order's provisions concerning the divestiture of the Phillips Spokane Terminal are to ensure the continued use of the Phillips Spokane Terminal in the same business in which it was engaged at the time of the announcement of the proposed merger and to remedy the lessening of competition in the terminaling of gasoline and other petroleum products resulting from the merger, as alleged in the Commission's complaint. As discussed in greater detail above, Holly is an experienced petroleum products refining, transportation, and terminaling competitor that currently operates two refineries,

thousands of miles of transportation assets, and six wholly-owned and operated terminals, plus three truck racks at its refineries, in addition to 50% interests in two terminals, and the Woods Cross truck rack and Boise and Burley terminals interests to be acquired (subject to FTC approval) as part of the Phillips Woods Cross Assets. Moreover, Holly has no terminals in the Spokane MSA market identified in the Commission's complaint. Accordingly, the proposed divestiture of the Phillips Spokane Terminal to Holly will accomplish the Commission's goals.

* * *

ConocoPhillips and Holly have entered into agreements relating to the divestiture of the Phillips Spokane Terminal that fully comply with the Commission's Decision and Order. Further, there is every reason to believe that Holly will be a viable and competitive owner of the Phillips Spokane Terminal. Accordingly, ConocoPhillips hereby seeks expeditious Commission approval of the proposed divestiture – along with the related agreements – pursuant to Paragraphs V.A. and V.B. of the Decision and Order.

Conclusion

For the foregoing reasons, ConocoPhillips respectfully requests that the Commission expeditiously approve the proposed divestiture of the Phillips Spokane Terminal to Holly, in the manner provided in the Spokane Sale Agreement, the Woods Cross Sale Agreement, and the Woods Cross Sale Agreement Amendment as soon as practicable after expiration of the public comment period.

Respectfully submitted,

Brian Byrne

George S. Cary
Brian Byrne
Matthew I. Bachrack
Cleary, Gottlieb, Steen & Hamilton
2000 Pennsylvania Ave., N.W.
Washington, D.C. 20006
(202) 974-1500

Counsel for ConocoPhillips

Dated: March 7, 2003

Holly Corporation Press Release

HOLLY CORPORATION COMPLETES ENHANCED NEW MEXICO DISTRIBUTION SYSTEM

1/15/2002

Dallas, Texas -- Holly Corporation (AMEX "HOC") announced today that its wholly-owned subsidiary, Navajo Refining Company, L.P., has completed the expansion of its Moriarity, New Mexico petroleum products terminal. The terminal expansion includes the addition of gasoline and jet fuel to existing diesel fuel delivery capabilities and thus permits Navajo to provide a full slate of light products to the growing Albuquerque and Santa Fe, New Mexico areas.

Enhanced pumping capabilities on the Company's Navajo pipeline extending from Holly's Artesia, New Mexico refinery through Moriarity, New Mexico to Bloomfield, New Mexico, in the northwest corner of New Mexico, will permit Navajo to deliver a total of over 45,000 barrels per day (BPD) of light products to these central and northwestern New Mexico locations. If needed, the addition of pump stations could further increase the pipeline's capabilities in the future.

Navajo's pipeline system, which consists of 330 miles of 8" pipeline leased from Williams and 60 miles of company-owned 12" pipeline, commenced service at the end of 1999, with an initial capacity of 16,000 BPD, upon the completion of a gasoline, diesel and jet fuel terminal in Bloomfield, New Mexico, and a diesel fuel terminal in Moriarity.

Matthew Clifton, President of Holly Corporation, said "Our enhanced product distribution capabilities position our Navajo refinery to satisfy economically and safely the growing gasoline, diesel and jet fuel needs of northern New Mexico for many years to come."

Holly recently announced the receipt of permits for the expansion of Navajo's Artesia, New Mexico crude oil refining capacity and the addition of a new Gas Oil Hydrotreater to increase Navajo's capacity to produce clean burning gasoline. The first phase of the expansion, which will increase crude oil capacity from 60,000 BPD to 70,000 BPD, and the construction of the new Gas Oil Hydrotreater, is expected to be completed by the end of 2003. A schedule for an additional permitted expansion to 80,000 BPD of crude oil capacity has not been determined.

"This pipeline system to the Four Corners Area, coupled with our announced refinery expansion, will allow Navajo to meet anticipated New Mexico petroleum product demand and to supply Colorado and Utah with light products in the event that proposed third-party pipeline extensions from the Four Corners Area to Salt Lake City are constructed," Clifton added.

Holly Corporation, through its affiliates, Navajo Refining Company and Montana Refining Company, is engaged in the refining, transportation, terminalling and wholesale marketing of petroleum products.

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995: The statements in this press release relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company cannot give any assurances that these expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such statements. Such differences could be caused by a number of factors including, but not limited to, risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in the Company's markets, the demand for and supply of crude oil and refined products, the spread between market prices for refined products and market prices for crude oil, the possibility of constraints on the transportation of refined products, the possibility of inefficiencies or shutdowns in refinery operations or pipelines, governmental regulations and policies, the availability and cost of financing to the Company, the effectiveness of the Company's capital investments and marketing strategies, the Company's efficiency in carrying out construction projects, the costs of defense and the risk of an adverse decision in the pending litigation against the Company brought by Longhorn Partners Pipeline, L.P., general economic conditions, and other financial, operational and legal risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings. The Company assumes no duty to publicly update or revise such statements, whether as a result of new information, future events or otherwise.

FOR FURTHER INFORMATION, Contact:

Mathew P. Clifton, President
James G. Townsend, Vice President,
Pipelines and Terminals
Holly Corporation
214/871-3555

Holly Corporation Press Release

HOLLY CORPORATION RECEIVES PERMITS FOR NEW UNIT AND REFINERY EXPANSION

1/8/2002

Dallas, Texas -- Holly Corporation (AMEX "HOC") announced today that its subsidiary Navajo Refining Company, L.P. has received the necessary permits for the construction of a new Gas Oil Hydrotreating Unit at Navajo's Artesia, New Mexico refining facility and for the expansion of its New Mexico refining capacity.

The Gas Oil Hydrotreater will enable Navajo to expand substantially its capabilities to produce higher-valued California grade gasolines required in its Phoenix market while increasing Navajo's overall percentage yield of gasoline. Navajo will also be positioned to meet the new EPA nationwide low-sulfur clean-burning gasoline standards on all its gasoline production upon the completion of the Gas Oil Hydrotreater in late 2003, which would be over four years ahead of the required date for the Navajo facility.

Contemporaneous with the Hydrotreater project, Navajo will be making necessary modifications to several of the Artesia processing units for the first phase of Navajo's expansion, which will increase crude oil refining capacity from 60,000 to 70,000 barrels per day (BPD). The first phase of the expansion is expected to be completed by the end of 2003. Certain additional permits will be required to implement needed modifications at Navajo's Lovington, New Mexico refining facility which is operated in conjunction with the Artesia facility. It is envisioned that these necessary modifications to the Lovington facility would also be completed by the end of 2003. The permits received by Navajo will also permit a second phase expansion of Navajo's crude oil capacity from 70,000 to 80,000 BPD but a schedule for such additional expansion has not been determined.

Matthew P. Clifton, President of Holly Corporation said, "We are extremely pleased to produce these cleaner-burning gasolines for our New Mexico, Arizona, Texas, Colorado and Utah customers ahead of our regulatory deadlines and, to implement advanced environmental control technology that will put Navajo in the upper tier of low emission refining facilities in the country. This project demonstrates our commitment to grow our clean-burning fuel production capabilities to meet the expanding energy needs of our Southwest markets in a manner that improves air quality at our facility while reducing vehicle tailpipe emissions within the communities we serve. This project is a clear win-win situation that improves air quality, regional energy self-sufficiency, and the profitability of our company."

The cost of the Gas Oil Hydrotreater project will be substantially reduced by using existing Hydrotreater equipment that was purchased from an Illinois refinery and has been relocated to the Navajo Refinery. Because of the use of this equipment, the total cost of the Gas Oil Hydrotreater project and the expansion of the Navajo Refinery to 70,000 BPD is currently estimated to be approximately $48 million, including approximately $15 million that has already been spent on engineering and the purchase and relocation of equipment.

The first phase of the Navajo Refinery expansion project will increase Holly Corporation's total crude oil refining capacity by approximately 15%, from 67,000 BPD to 77,000 BPD.

Holly Corporation, through its affiliates, Navajo Refining Company and Montana Refining Company, is engaged in the refining, transportation, terminalling and wholesale marketing of petroleum products.

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995: The statements in this press release relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company cannot give any assurances that these expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such statements. Such differences could be caused by a number of factors including, but not limited to, risks and uncertainties with respect to efficiency in carrying out construction projects, the actions of actual or potential competitive suppliers of refined petroleum products in the Company's markets, the demand for and supply of crude oil and refined products, the spread between market prices for refined products and market prices for crude oil, the possibility of constraints on the transportation of refined products, the possibility of inefficiencies or shutdowns in refinery operations or pipelines, governmental regulations and policies, the availability and cost of financing to the Company, the effectiveness of the Company's capital investments and marketing strategies, the costs of defense and the risk of an adverse decision in the pending litigation against the Company brought by Longhorn Partners Pipeline, L.P., general economic conditions, and other financial, operational and legal risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings. The Company assumes no duty to publicly update or revise such statements, whether as a result of new information, future events or otherwise.

FOR FURTHER INFORMATION, Contact:

Matthew P. Clifton, President
Stephen J. McDonnell, Vice President
and Chief Financial Officer
Holly Corporation
214/871-3555